

Complete Course in 22 Lectures

1503 MCQs

**2025
Edition**

PGT Commerce

Volume 1: Financial Accounting

Also Useful For

**DSSSB PGT Commerce Examination
NVS PGT Commerce Examination
UP PGT Commerce Examination
UP TGT Commerce Examination
H-TET Commerce Examination
Bihar STET Commerce Examination
BPSC School Teacher Examination
Other State Level Teacher's Examination**

- **Self-Study Series Book**
- **Video Lecture Series Book**

2025 Edition

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Questions Summary – Topic-wise**1503 Questions**

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		549	954

Self Study / Video Lecture Schedule

22 Lectures of 1.5 Hours

S. NO.	Topic	No. of Lectures	Lecture wise Schedule
1	Basic of Accounting		
	Accounting Terminology	1	Lecture - 1
	Rules of Double Entry Book-Keeping	1	Lecture - 2
	Classification of Accounts		
2	Accounting Process		
	Accounting Process - Introduction	1	Lecture - 3
	Vouchers		
	Journal		
	Subsidiary Books	1	Lecture - 4
	Ledger		
	Trail Balance		
3	Rectification of Errors	1	Lecture - 5
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12	Inventory Valuation	1	Lecture - 16
13	Accounting for Partnership - Basic Concepts	1	Lecture - 17
14	Valuation of Goodwill	1	Lecture - 18
15	Admission of a Partner	2	Lecture - 19 Lecture - 20
16	Retirement / Death of a Partner	1	Lecture - 21
17	Dissolution of Partnership Firm	1	Lecture - 22

PGT Commerce Financial Accounting Questions - Exam-Wise & Chapter-Wise Bifurcated

S. NO.	Topic	Total	DSSSB	KVS	NVS	H-TET	UP PGT	UP TGT	APS	Bihar STET	BPSC School Teacher	Other PGT Exams
1	Basic of Accounting											
	Accounting Terminology	26	7	-	-	4	6	6	2	-	1	-
	Rules of Double Entry Book-Keeping	39	9	3	5	1	9	8	4	-	-	-
	Classification of Accounts	13	1	1	-	2	1	5	1	1	1	-
2	Accounting Process											
	Accounting Process – Introduction	3	-	-	1	-	-	2	-	-	-	-
	Vouchers	8	1	2	1	2	-	1	-	-	1	-
	Journal	28	3	3	1	2	2	12	4	1	-	-
	Subsidiary Books	5	1	-	-	1	-	3	-	-	-	-
	Ledger	18	2	2	3	2	-	8	-	-	1	-
	Trail Balance	11		1	1	1	3	2		1	2	-
3	Rectification of Errors	26	9	1	2	5	1	7	1	-	-	-
4	Cash Book & BRS											
	Cash Book	11	4	-	1	1	-	4	-	1	-	-
	Bank Reconciliation Statement	15	3	-	2	4	-	-	-	-	6	-
5	Meaning and Scope of Accounting	22	7	2	1	1	8	-	-	-	3	-
6	Accounting Concepts, Principles and Conventions	50	11	6	3	4	10	6	2	1	6	1
7	Accounting Standard & Policies	12	4	1	-	1	2	1	1	1	1	-
8	Capital and Revenue Expenditure and Receipts	23	4	1	-	5	2	5	3	-	3	-
9	Depreciation Accounting	27	7	5	3	3	3	3	1		2	-
10	Final Accounts	71	16	2	8	5	19	14	-	1	6	-
11	Provision and Reserve	10	3	1		2	2	-	-	2		-
12	Inventory Valuation	12	3	4	2	-	-	-	1	2	-	-
13	Partnership - Basic	24	7	-	3	3	2	8	1	-	-	
14	Valuation of Goodwill	8	4	-	-	1	-	1	1	-	-	1
15	Admission of a Partner	37	7	2	3	5	5	8	1	-	6	-
16	Retirement / Death of a Partner	23	2	2	1	8	-	6	1	-	3	-
17	Dissolution of Partnership Firm	27	1	1	2	4	6	11	-	2	-	-

PGT Commerce Exam – Financial Accounting Trend Analysis

DSSSB PGT Trend		KVS PGT Trend	
Exam	No. of Questions	Exam	No. of Questions
2014 Tire I	12	2016	11
2015 Tire II	16	2018	10
2018 Male	24	2023	16
2028 Female	22	NVS PGT Trend	
2021 Male	9	Year	No. of Questions
2021 Female Shift I	21	2014	12
2021 Female Shift II	14	2016	16
		2019	13

UP PGT Trend		UP TGT Trend	
Exam	No. of Questions	Exam	No. of Questions
2015	29	2015	26
2016	8	2016	31
2019	23	2019	36
2021	18	2021	41

H-TET Trend		Other Exams Trend	
Exam	No. of Questions	Exam	No. of Questions
2016	18	APS 2012	24
2018	3	Jharkhand PGT 2017	2
2019	6	Bihar STET 2023	15
2020	2	BPSC 2023	48
2021	23		
2022	13		

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Basic of Accounting

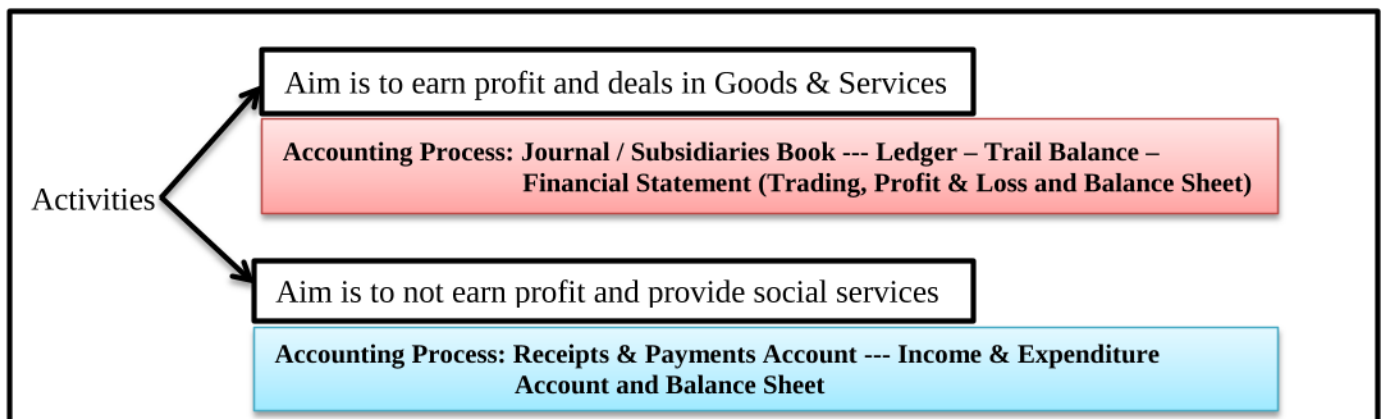
Topics Covered :	PGT Commerce Questions	Practice Questions
• Accounting Terminology	26	38
• Rules of Double Entry Book-Keeping	39	59
• Classification of Accounts	13	28
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Accounting Terminology

Accounting is the language of business. It helps the business not only in finding out profits / losses for a particular period and its financial position on a particular date but also helps in management of business. It has its own well designed and established principles which are guided by some concepts and conventions. Accounting is recording of transactions in a systematic manner in various types of books and their posting to a master book called ledger

Certain basic accounting terms are used in daily business world. Before starting the study of accounting it is necessary to understand these terms, as these terms have their specific meaning in Accounting. These basic terms are called “Accounting Terminology” or Basic Accounting Terms.

1. Business: - Regular occupation, profession or trade. Any occupation or activity in which people regularly engage with a view to earn profit is called business. It is very important that only those activities are called businesses which are done on “Regular basis”. Occasional activities are not cover under business. Business includes both trading of goods and activities related to services.

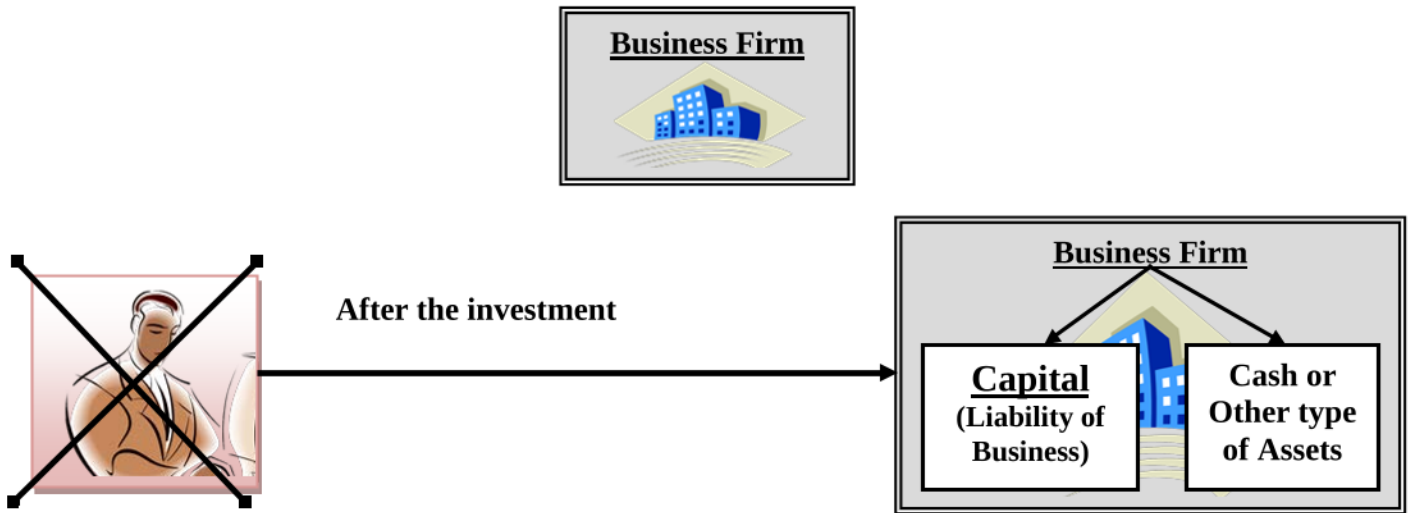


2. Owner: – The person who makes the investments and bears all the risks (loss) and rewards (profits) connected with the business is called the owner. In Case of Sole Proprietorship Proprietor is the owner; in case of partnership partners are the owner; in case of company shareholder are the owner of the business. If Mr. X invests money in the business Mr. X is the owner of the business.

Investment with Risk & Rewards – Owner; Example – Equity Share-holder, Preference Share-holder
 Investment with Rewards – Creditor; Example – Debenture-holder, Loan Provider

3. Capital / Additional Capital / Fresh Capital / Further Capital: – The term Capital is used for the “Business point of View”. It means the amount which proprietor has invested in the business is called capital. Proprietor has right to refund his capital from the business at any time. Capital introduced by proprietor may be in cash or in kind (in form of Furniture, Goods, Building, Plant and Machinery etc.) For Example: - If Ram Started Business with Cash Rs.50,000 and Furniture worth Rs.30,000 then total Capital of firm becomes Rs.80,000 (50,000 + 30,000)

Example of Separate Business Concept



Transactions are recorded in Business at “Business Point of view” and not from “proprietor point of view”

Capital is the Internal Liability of the business. It is the liabilities towards Proprietor. Capital is also known as Owner’s Equity or Net Worth.

4. Internal Liability: -These represent proprietor’s equity, i.e. all those amount which are entitled to the proprietor, e.g., Capital, Reserves, Undistributed Profits, Retained earnings, Surplus etc.

5. Drawings: – It is amount of money or the value of goods, which the proprietor takes (withdraw) for his domestic or personal use. If goods are taken by proprietor then it is valued at purchase cost. Drawings reduce the capital of the proprietor.

In case of non-corporate entity (like sole proprietorship and partnership) if any expense of proprietor or partner is paid out of business cash it is treated as drawings. Such as: Income Tax paid, Life Insurance Premium Paid, Tuition Fees Paid for children etc. If any Assets is purchases out of business cash and it is not used in business but used by proprietor or partner for his personal or domestic use it is also treated as drawings.

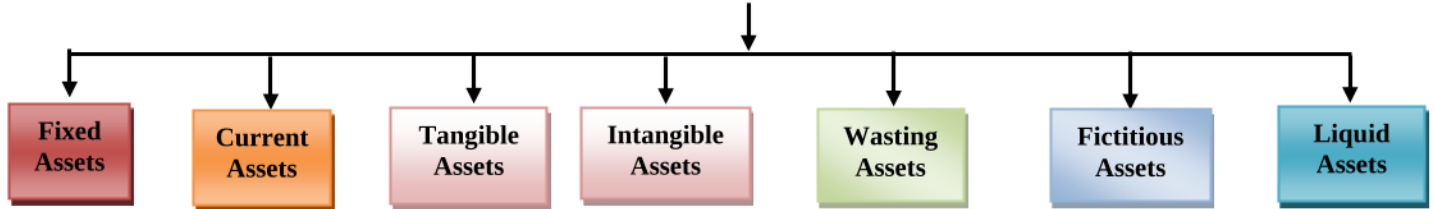
6. Assets: – Assets are the economic resource owned by the business with the purpose of using it for generating future profits. It means the property or legal right owned by the business. An item only becomes assets of the business when businesses have “its ownership rights” and enable the organization to get cash or a benefit in future.

An items becomes an assets when

- Businesses have “its ownership rights”
- Used in its production or service process and
- Gives the benefits to the organization

According to Finny and Miller, “Assets are future economic benefits, the rights, which are owned and controlled by an organization or an individual”.

Normal Classification of Assets



- (i) **Fixed Assets:** – Fixed assets are those assets which are “purchased for the purpose of operating the business” and not for resale in ordinary course of business. For example: - Land, Buildings, Machinery, Furniture, Goodwill, Brand value, Trademarks, Computer Software, Mining Rights, Copyrights etc.
- (ii) **Current Assets:** – Current assets are those assets of a business which are kept for short term / period with a purpose of resale or converted them into cash. For example: - Bank Balance, Unsold Stock, Debtors, Bills Receivable, Prepaid Expenses, Accrued Income etc.
- (iii) **Tangible Assets:** – Tangible assets are those assets which have physical form/ existence or they can be seen and touched. For example: - Land, Buildings, Machinery, Furniture, Computer etc.
- (iv) **Intangible Assets:** – Intangible assets are those assets which do not have any physical form / existence or they cannot be seen and touched. For example: - Goodwill, Brand value, Trademarks, Software, Mining Rights, Copyrights, Licences and Franchise, Patents and other Intellectual Property Rights, Service and Operating Rights, Recipes, Formulae, Models and Designs etc.
- (v) **Wasting Assets:** – Wasting assets are those assets which are natural resources consumed over a period of time. As the resource is extracted or removed from the land, its asset value reduces. For example: - Mines, Forest, Oil Wells, queries etc.
- (vi) **Fictitious Assets:** - These are the assets which cannot be realized in cash or we cannot derive further benefit from them. They are losses written off not in the year in which they are incurred but in more than one accounting year. These assets are also known as “Deferred Revenue Expenditure”. These assets are not really assets. They are shown on the assets side of the Balance Sheet only for the purpose of transferring them to Profit & Loss Account gradually over a period of time. These are neither tangible assets nor intangible assets. For example: - Advertisement Expense, Shares Issue Expenses, Underwriting Commission, Preliminary Expenses, Loss / Discount on issue on Shares or Debenture etc.
- (vii) **Liquid Assets:** - Those assets which can be converted into cash within a short span of time are known as Liquid Assets. For example: - Cash in hand, Cash at Bank, Debtors, Bills Receivable etc.

In other words: Liquid Assets = Currents Assets – (Stock + Prepaid Expenses)

All animals are classified under Livestock Account

7. Liabilities: – These are the obligations or debts that the enterprise must pay in money or services at some time in the future. Liabilities are debts, the amount, which the business owes to outsiders except the proprietor. In other words owing of the business are called Liability. For example: - amount due to creditors, bank overdrafts, bills payable, loans etc.

According to Finny and Miller, “Liabilities are debts, they are amounts owed to creditors.”

Non-Current Liabilities or Long Term Liability:

These are those liabilities which are payable after a long term (generally more than a year). For example: - Long Term Loans, Debentures etc.

Current Liabilities or Short Term Liability:

These are those liabilities which are payable in near future (generally within a year). For example: - Bank overdrafts, Creditors, Bills Payables etc.

Contingent Liability: It represents a potential obligation that could be created depending on the outcome of an event. E.g. if supplier of the business files a legal suit, it will not be treated as a liability because no obligation is created immediately. If the verdict of the case is given in favour of the supplier

then only the obligation is created. Till that it is treated as a contingent liability. Contingent liability is not recorded in books of account, but disclosed by way of a note to the financial statements.

8. Expenses: – Expenses is the amount spent in order to produce and sell the goods and services which produce Revenue. In other words Expenses are incurred to generate and earn revenue. For example payment of Salaries, Wages, Rent etc. are expenses.

Difference between Expenses and Loss

- Expenses are incurred to generate revenue whereas Loss does not incur to generate revenue. For example:-

Expenses	Loss
Salary paid to worker	Cash embezzled by a worker
Depreciation on Machine	Selling of Machine below than its book value
Purchase of Machine	Theft of Machine

Expenses Paid (Benefit is availed and payment is also made): amount paid in order to produce and sell the goods and services which produce Revenue. For example: Salary Paid

Outstanding Expenses (Benefit is availed but payment is not made): These are those expenses which have become due during the accounting period but which have not yet been paid. This is the liability of the business. For example: - Salary Outstanding / Outstanding Salary

Prepaid Expenses / Unexpired Expenses (Payment is made without availing he benefits): These are those expenses, which have been paid in advance. In this case payment is made before the due date. This is the Assets of the business. For example: - Prepaid Salary

Sundry Expenses: - Generally petty (small) expenses are incurred in a business such as refreshment, postage & stamp, conveyance etc. These expenses are normally debited in one account for convenience in Sundry Expenses Account.

9. Loss: Loss is the excess of expenses of a period over its related revenue. Loss may be arising in normal business transactions or occasional transactions. Loss may be arise from sale of Investments or Fixed Assets

Loss = Cost – Revenue

10. Incomes: It a very wide term. It is the earning during a particular period of time. Income is generally measured in terms of period includes both profit and gain. For example: - Daily income, monthly income or Yearly Income.

Income Received: - (Benefit is provided and payment is received): These are those incomes, which have been earned and received by the business. For example: - Rent Received

Accrued Income / Income Accrued but not due (Benefit is provided but payment is not received): - These are those incomes, which have been earned by the business during the accounting year but has not yet become due and, therefore, has not been received. This is the Assets of the business. For example: - Accrued Rent.

Income that has been earned but not yet received is called accrued income. It can also be called Accrued Revenue or Accrued Earnings. It is treated as Assets. For Example: At the end of March, Innovative Institute has earned two month of interest on its investment – but it will not actually receive an interest until September 30. Here 2 month interest has earned but not received is recorded as accrued interest income at the time of closing books of accounts as on 31st March.

Income received in Advance / Unearned Income (Payment is received without providing benefits): - These are those incomes, which have been received by the business during the accounting year before being earned. This is the liability of the business. For example: - Rent received in Advance.

Advanced money received from a customer for supply of goods or services in future is called Unearned Income and it is considered as Liability. It's also known as Deferred Revenue or Unearned Revenue or Customer Deposits.

- Unearned income is a liability that occurs when a company receives money for goods and services that have not yet been provided.
- Unearned Revenue: Unearned revenue is money received for a product or service that has yet to be delivered. It's a prepayment for items that will be provided in the future, such as annual subscriptions, prepaid insurance, and advance rent

For example, if a customer purchases a policy from an insurance company at the beginning of the year and pays for twelve months of coverage, the payment made is considered unearned revenue.

11. Gains: – It is the profit that is arising from transactions that are incidental or occasional or rare to business. It is not arise from normal business transactions and in normal course of business. It is arise from sale of investments or Fixed Assets at more than their book Value.

- It is arise from sale of Investments or Fixed Assets
- When these items are sold at more than their Book Value
- It is not arise in Normal course of Business

Gain = Sale Price of Fixed Assets or Investments – Book Value / Cost of Fixed Assets or Investments

12. Purchases: - Purchase means purchase of those goods which purpose is to resale either directly in ordinary course of business or used in producing finished goods, which are also to be sold. Purchase does not include purchase of fixed assets or stationery which purpose is not to resale in ordinary course of business.

Purchase can be made in two ways: -

- (i) Cash Purchase: - In this type of purchase goods are purchased on cash basis. It means goods are comes in business and cash is immediately paid or goes out from business
- (ii) Credit Purchase: – In this type of Purchase goods are comes in business but cash is not paid immediately. Cash will be paid in future. **In case of Credit purchase Creditors will arise.**

13. Purchases Return / Return Outward: - Goods purchased may be returned to the supplier or creditor due to any reason such as “not as per specification” or “defectives” it is known as purchase return or return outward. **It has been assume that this facility is only provided when goods are purchase on credit basis.**

14. Sales: -Sales means sale of those goods in which firm deals or sale of those goods which was purchase for the purpose of resale. Sales do not include sales of old Fixed Assets and Scrap

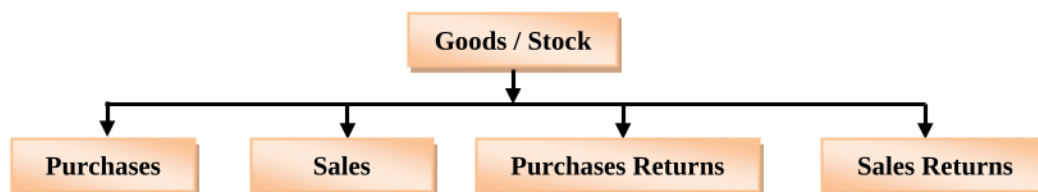
Sales can be done in two ways: –

- (i) Cash Sales: – In this type of sale goods are goes from the business and cash is immediately comes.
- (ii) Credit Sales: – In this type of sale goods are goes from the business but cash is not come immediately. Cash will be received in future. **In Case of Credit sale Debtors will arise.**

15. Sales Return / Return Inward: - Goods sold when returned by customer or debtors due to any reason such as “not as per specification” or “defectives” it is known as sales return or return inward. It is made when goods are purchase on credit basis. **It has been assume that this facility is only provided when goods are sold on credit basis.**

- If a transaction relates to purchase or sale of goods and the name of the seller or purchaser is given but it is not stated that it is a cash transaction or Credit transactions it is treated as a Credit Transaction.
- If a transaction relates to purchase or sale of goods and the name of the seller or purchaser is not given it is treated as a Cash Transaction.

- 16. Trade Debtors:** – A person who owes money to the firm generally on account of credit sales of goods is called a Debtor. When goods are sold to Shyam on credit Shyam is the “Debtor “of the firm.
- 17. Bills Receivable:** - It means a bill of exchange accepted by a Debtors showing the particular amount will be received on a particular date. When Bills Receivable is made it decreases the value of Debtors.
- 18. Trade Receivables:** - Amount due from Debtors and Bills Receivables (B/R) is jointly termed as “Trade Receivables” or “Accounts Receivable”
- 19. Trade Creditors:** – A person to whom a firm owes money is called a Creditor. When goods are purchased from Mohan on Credit Mohan is the “Creditor” of the firm.
- 20. Bills Payable:** - It means a bills of exchange acceptance given by creditor showing that a particular amount will be paid on the particular date. When Bills Payable is made it decreases the value of the creditors.
- 21. Trade Payables:** - Amount due to Creditors and for Bills Payable (B/P) is jointly termed as “Trade Payables” or “Accounts Payable”.
- 22. Stock / Merchandise:** – At the end of year balance of purchase (remaining goods) is transferred to stock. These are the physical items of trade. It is those items which are purchased for the purpose of resale or it is those items in which firm deals. In other words stock means goods held by the firm for the purpose of sale in ordinary course of business or for the purpose of using it in the production of goods meant for sale or services to be rendered.



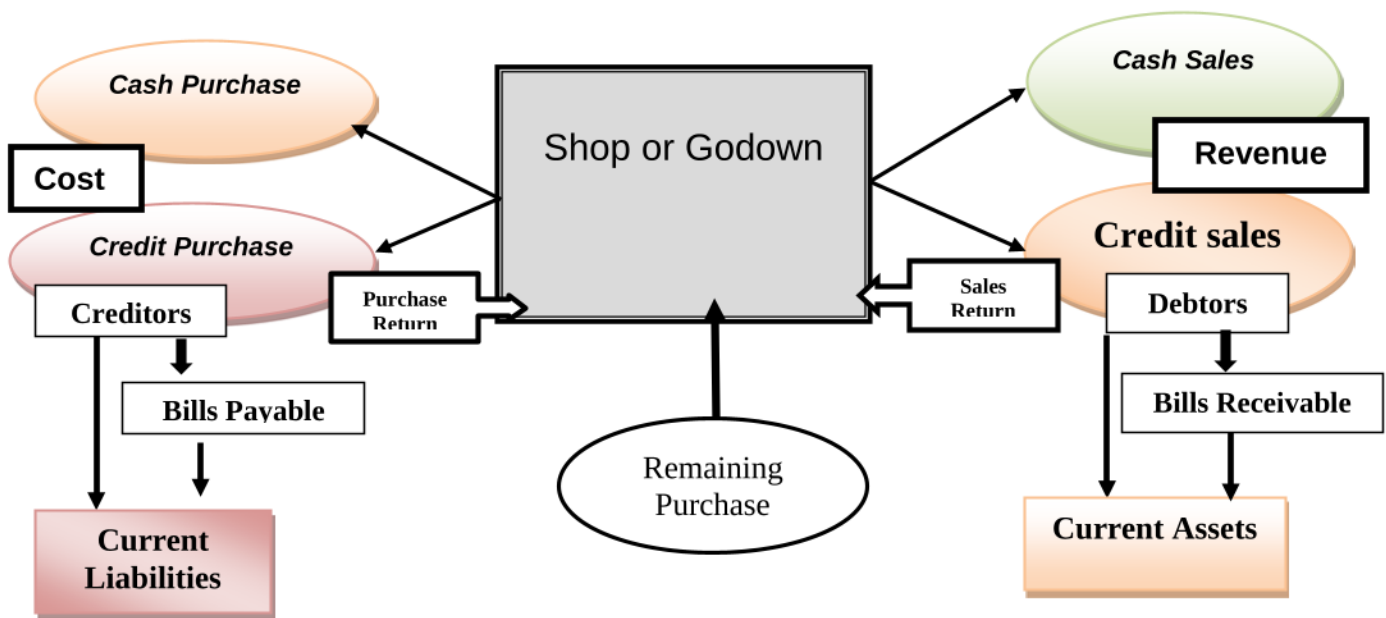
Stock may be Opening Stock or Closing Stock

- (i) Opening Stock: – Stock lying at the godowns at the beginning of the year is called opening stock.
- (ii) Closing Stock: – Stock lying at the godowns at the end of the year is called closing stock.

Stock for Manufacturer	Raw materials, Work in progress, Finished Goods
Stock for Trader	Stock in Trade

Stock in Trade means goods in which firm deals. These are those goods which firm normally purchase and sold without any modifications.

- 23. Cost:** – It is the amount of expenditure incurred on a specified article, product or activity. When an item is purchased the value that is paid for it is called Cost.
- 24. Revenue:** – It is the Gross inflow of Cash or receivables arising from a transaction. When the goods are sold the total amount in which goods are sold is called Revenue.



PGT Commerce Questions

DSSSB

1. Owing of the business are called
 (a) Liabilities (b) Capital
 (c) Net worth (d) Assets
2015 Tیره II
2. Which of the following is an example of long term liability?
 (a) Mortgage (b) Creditors
 (c) Bank Overdraft (d) Accounts payable
2018 Female
3. Fictitious assets are included in:
 (a) Long term liabilities (b) Capital
 (c) Current liabilities (d) Fixed liabilities
2021 Male
4. Which of the following is / are Non-current intangible assets-
 A. Vehicles
 B. Office furniture
 C. Trademark
 D. Computer software
 (a) C only (b) C and D only
 (c) A, B, C and D (d) A and B only
2021 Female 1st Shift
5. State which of the following is not a current asset?
 (a) Cash (b) Office furniture
 (c) Stock (d) Debtors
2021 Female 1st Shift
6. _____ are economic resources of an enterprise that can be usefully expressed in monetary terms.
 (a) Transaction (b) Assets
 (c) Entity (d) Liabilities
2021 Female 2nd Shift
7. Which of the following kinds of asset is Oil-Well?

- (a) Wasted Assets (b) Fixed assets
 (c) Liquid Assets (d) Intangible Assets

2021 Female 2nd Shift

H-TET

8. Prepaid expense is
 (a) Expense (b) Income
 (c) Asset (d) Liability
2016
9. Prepaid Insurance Premium is shown as
 (a) An asset
 (b) An expense
 (c) A liability
 (d) No adjustment is required
2016
10. are the obligations or debts that an enterprise has to pay at some time in the future.
 (a) Debenture (b) Capital
 (c) Liabilities (d) Share
2016
11. Consider the following items:
 (i) Debenture
 (ii) Prepaid rent
 (iii) Interest accrued
 (iv) Bank overdraft
 Which of the are current liabilities?
 (a) (i), (ii), (iii) and (iv)
 (b) (iv)
 (c) (ii), (iii) and (iv)
 (d) (i), (ii) and (iii)
2016

UP PGT

- 12.** Which of the following are current liabilities?
 (a) Outstanding wages
 (b) Redeemable preference shares
 (c) Provision for depreciation on machinery
 (d) Share premium
2015
- 13.** Bill discounted with a bank is–
 (a) Contingent liability
 (b) Current liability
 (c) Current assets
 (d) None of the above
2015
- 14.** Bank overdraft should be classified as–
 (a) Current asset (b) Current liability
 (c) Fixed assets (d) Fixed liability
2015
- 15.** The term fixed assets include–
 (a) Bank balance
 (b) Stock of finished goods
 (c) Goodwill
 (d) Loose tools
2015
- 16.** Earned but not yet received income is treated as
 (a) Asset (b) Liability
 (c) Loss (d) Capital
2019
- 17.** Advanced money received from a customer for supply of goods in future is a/an
 (a) income (b) expense
 (c) current liability (d) current asset
2019

UP TGT

- 18.** Which of the following is not Current Liability?
 (a) Bank Overdraft (b) Debentures
 (c) Outstanding Salary (d) Bills Payable
2015
- 19.** Which of the following is not a Fixed Asset
 (a) Building (b) Furniture
 (c) Cash (d) Machinery
2015

- 20.** Goodwill is :
 (a) An intangible asset (b) A current asset
 (c) A fixed asset (d) A personal asset
2015
- 21.** The Assets which are purchased to improve profitability in the business not for resale are called
 (a) Wasting assets (b) Current assets
 (c) Fixed assets (d) Intangible assets
2016
- 22.** Which of the following is not a current assets:
 (a) Debtor (b) Pre-paid Expenses
 (c) Stock (d) Purchases
2019
- 23.** Unearned income is considered as
 (a) Assets (b) Liability
 (c) Loss (d) Capital
2021

Army School PGT – 2012

- 24.** Term “current asset” does not include
 (a) Cash (b) Stock-in-trade
 (c) Furniture (d) Advance payment
- 25.** Life insurance premiums received by an insurance company should be classified as
 (a) Accrued asset (b) Accrued liability
 (c) Prepaid expense (d) Unearned revenue

BPSC Teacher Examination 2023

- 26.** Furniture for a cloth dealer is a/an
 (a) Current asset
 (b) Fixed asset
 (c) Expense of revenue nature
 (d) More than one of the above
 (e) None of the above

Answer Key

1 (a)	2 (a)	3 Drop	4 (b)	5 (b)
6 (b)	7 (a)	8 (c)	9 (a)	10 (c)
11 (b)	12 (a)	13 (a)	14 (b)	15 (c)
16 (a)	17 (c)	18 (b)	19 (c)	20 (a)
21 (c)	22 (d)	23 (b)	24 (c)	25 (d)
26 (b)				

Rules of Double Entry Book-Keeping

History of Accounting

There was no recognized accounting system before 15th Century; In 1494 Luca Pacioli, an Italian mathematician published his first book (Suma de Arithmetica, Geometria, Proprtioni et Proportionalita) in Venice on double entry system of accounting. He is called father of Accounting and Book Keeping.

Double Entry system:-

Double Entry system of Book-Keeping has emerged in the process of evaluation of various accounting techniques. It is the most scientific, complete and perfect system of keeping records.

Every transaction has two fold aspects - Debit and Credit and both the aspect are recorded in the books of accounts. According to this system, every business transaction involves two accounts, one receiving the benefit and other giving the benefit.

Features of Double Entry system:-

- (i) It maintains a complete record of each transaction
- (ii) It recognizes two fold aspect of every transaction
- (iii) In this system, one aspect is debited and other aspect is credited following the rules of Debit and Credit
- (iv) Since one aspect of a transaction is debited and the other is credited, total of all debits is always equal to total of all credits. It helps in establishing arithmetical accuracy by preparing a Trial Balance.

Accounting Equation Approach:-

The relationship of Assets with that of liability and owners' equity in the equation form is known as "Accounting Equation" Basic Accounting Equation comes into picture when sum total of capital and liabilities equalizes assets *Where Assets are what that business owns and Capital and Liabilities are what the business owes*

An Accounting Equation is a statement which shows that $Assets = Liabilities + Capital$. It is based on the dual aspect concept. In this concept every business transactions has a two-sided effect either on the assets of the business or on the liabilities of the business.

The total Claims will always equal the total Assets of the firm.

ASSETS = EQUITIES / Owner's Equity / Shareholder's Equity (TOTAL CLAIMS)

or

ASSETS = Internal Equities/Claims + External Equities/Claims

or

ASSETS = CAPITAL (Owners' Equity / Equity) + LIABILITIES

or

Fixed Assets + Current Assets = Capital + (Current Liabilities + Non- Current Liabilities)

or

Long Term Assets + Short Term Assets = Capital + (Short Term Liabilities + Long Term Liabilities)

The above relationship is known as the "Accounting Equation" or the "Balance sheet" Equation.

« Capital = Assets – Liability

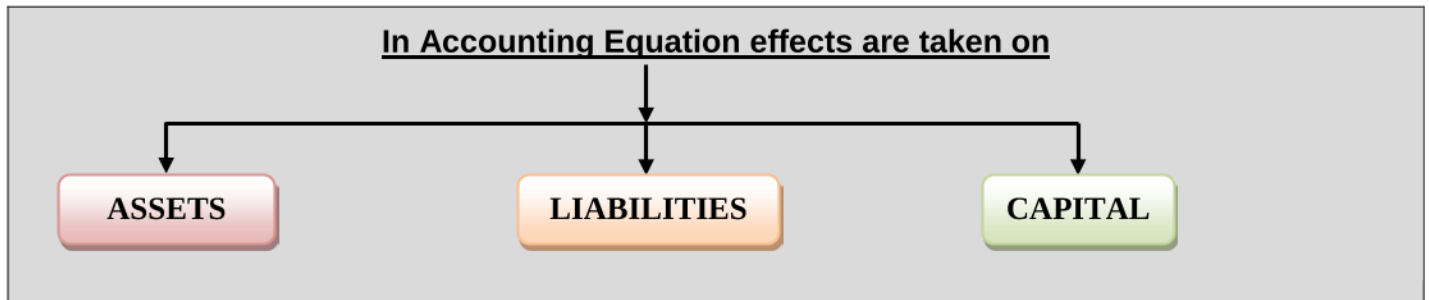
« Liability = Assets – Capital

Procedure for Developing Accounting Equation

STEP 1: – Ascertain the Items which are involve

STEP 2: – Find out the effect on the items

STEP3:– Grouping the items as ASSETS or LIABILITIES or CAPITAL



Important Terms and its effect on Accounting Equation: –

1. **Outstanding Expense:** - These are those expenses which have become due during the accounting period but which have not yet been paid. This is the liability of the business.
2. **Prepaid Expenses:** – These are those expenses, which have been paid in advance. In this case payment is made before the due date. This is the Assets of the business.
3. **Accrued Income:** - These are those incomes, which have been earned by the business during the accounting year but has not yet become due and, therefore, has not been received. This is the Assets of the business
4. **Income received in Advance:** - These are those incomes, which has been received by the business before being earned. This is the liability of the business

S. No.	Item	Effect on Accounting Equation
1	Outstanding Expenses	Increase in Liabilities (as a separate head such as Outstanding Rent; Outstanding Salary) and Decrease in Capital
2	Accrued Income	Increase in Assets (as a separate head such as Accrued Interest ; Accrued Commission) and Increase in Capital
3	Income Received in Advance	Increase in Assets (as a Cash) and Increase in Liabilities (as a Separate head such as Commission Received in Advance; Fees Received in Advance)
4	Pre- Paid Expenses	Decrease in Assets (as Cash) and Increase in Assets (as a Separate head such as Prepaid Insurance ; Prepaid Rent Expenses)

Added to the Capital: - These items are added to the capital: -

Income, Gain, Profit and Introduction of Additional Capital / Fresh Capital.

Deducted from the Capital: - These items are deducted from the capital:-

Losses, Expenses and Drawings

IMPORTANT FORMULA

1. Owner's Equity = Opening Owner's Equity + Revenue – Expenses
2. Total Equity = Owner's Equity + Outside's Equity / Creditor's Equity + Revenue – Expenses
3. Total Assets (opening) = Capital + Outside's Liabilities
4. Total Assets (closing) = Capital + Outside's Liabilities + Profit / (– Loss)
= Capital + Outside's Liabilities + Revenue – Expenses
5. Closing Capital = Closing Assets – Closing Liabilities

6. Closing Capital = Opening Capital + Additional Capital + Profit / (- Loss) – Drawings

7. Opening capital = Closing Capital + Drawings - Additional capital - Profit

S.No	Examples	Effects
1	1. Sale of Fixed Assets / Goods for whether cash or Credit 2. Purchase of Fixed Assets / Goods for Cash 3. Payment received from Accounts Receivable 4. Bills Receivable issued 5. Prepaid Expenses (Expenses paid in advance)	No Change in Total Assets
2	1. Bills Payable Accepted	No Change in Total Liability / Increase in one Liability and Decrease in Other Liability
3	1. Sale of Fixed Assets / Goods for cash or Credit 2. Purchase of Fixed Assets / Goods for Cash 3. Payment received from Accounts Receivable 4. Bills Receivable issued 5. Bills Payable Accepted 6. Interest on Capital Provided 7. Interest on Drawings Provided	No Change in Total Capital / Owners Equity
4	1. Purchase of Fixed Assets / Goods for Credit 2. Loan taken 3. Income Received in Advance	Increase in Assets and Increase in Liabilities
5	1. Payment of Accounts Payable 2. Payment of all type of Liability (such as payment of o/s Expense)	Decrease in Assets and Decrease in Liabilities
6	1. Expenses Paid 2. Loss 3. In case of Depreciation and Provisions 4. Withdraw from Capital / Drawings	Decrease in Assets and Decrease in Capital
7	1. Income Received 2. Accrued Income 3. Introduced Additional Capital / Fresh Capital	Increase in Assets and Increase in Capital
8	1. Conversion of Partners Loan to Capital	Decrease in Liability and Increase in Capital
9	1. Outstanding Expenses provided	Increase in Liability and Decrease in Capital

PGT Commerce Questions

DSSSB

- 1.** Which of the following transactions would cause a change in 'Owners' equity?
 (a) Repayment of Bank loan
 (b) Payment of dividends and unprofitable operations
 (c) Sale of land on credit
 (d) Purchase of assets and incurrence of liabilities

2015 Tire II

- 2.** Who among the following is considered as the 'Father of Accounting'?
 (a) Henry Dunant (b) Robert Stephenson
 (c) Luca Pacioli (d) Elton Mayo

2018 Male

- 3.** Which of the following is treated as per the principles of Nominal Account?
 (a) Bad Debts Recovery Account
 (b) Drawings Account
 (c) Commission Received in Advance
 (d) Bills Payable Account

2018 Male

4. "Debit all Expenses & Loss, Credit all Gains & Incomes" is a rule that is applicable for:
- (a) Natural Personal Accounts
 - (b) Representative Personal Accounts
 - (c) Nominal Accounts
 - (d) Intangible Real Accounts

2018 Male

5. Owner's equity (Capital) can be calculated as:
- (a) Current assets – Current liabilities
 - (b) Fixed assets – Current liabilities
 - (c) Fixed assets – Fixed liabilities
 - (d) Total assets – Total liabilities

2018 Female

6. An organization has furniture of Rs.90,000, Cash Rs.1,00,000, Debtors Rs.10,000, Other assets Rs.1,000 and Owner's equity Rs.90,000. What is the liability on the organization?
- (a) Rs.2,90,000
 - (b) Rs.2,91,000
 - (c) Rs.2,01,000
 - (d) Rs.1,11,000

2018 Female

7. A firm had a capital balance of Rs.1,00,000 at the beginning of a year. At the end of the year, the firm had total assets of Rs.1,50,000 and total liabilities of Rs.70,000. If the total withdrawals during the period were Rs.30,000, what was the amount of Net profit/Net loss for the year?
- (a) Rs.10,000 loss
 - (b) Rs.50,000 loss
 - (c) Rs.10,000 profit
 - (d) Rs.20,000 loss

2018 Female

8. A loan due for repayment in 22 months' time has been included as a current liability, what will be the effect when this is corrected?
- (a) Increase net assets
 - (b) reduce net current assets
 - (c) increase net current assets
 - (d) no effect on net current assets

2018 Female

9. In double entry system, the accounting equation = _____.
- (a) Capital = Assets – Liabilities
 - (b) Capital + Liabilities = Assets
 - (c) Assets + Liabilities = Capital
 - (d) Liabilities = Capital + Assets

2021 Female 2nd Shift

KVS

10. The ending balance of owner's equity is Rs. 1,02,000. During the year the owner contributed Rs. 15,000 and withdrew Rs. 6,000. If the firm had a net income of Rs. 13,000 for the year, what was the beginning owner's, equity?
- (a) Rs. 80,000
 - (b) Rs. 93,000
 - (c) Rs 96,000
 - (d) Rs. 89,000

2016

11. Which of the following is an Accounting Equation?
- (a) Liabilities = Assets + Capital
 - (b) Capital = Assets – Liabilities
 - (c) Capital = Assets + Liabilities
 - (d) Assets = Liabilities – Capital

2023

12. In 'Double Entry System' of Accounting, every business transaction affects _____.
- (a) At least two accounts
 - (b) Two accounts
 - (c) More than two accounts
 - (d) Two sides of the same account

2023

NVS

13. When interest is allowed on capital which of the following is true with respect to accounting equation?
- (a) Both assets and capital will increase with the same amount
 - (b) Liabilities will decrease and capital will increase with the same amount
 - (c) Capital will increase and decrease with the same amount
 - (d) Liabilities will increase and capital will decrease with the same amount

2014

14. Jain's opening capital was Rs. 2,80,000 and closing capital was Rs. 4,00,000. During the year, he introduced Rs. 1,00,000 as additional capital and he made a profit of Rs. 80,000. His drawings during the year were:
- (a) Rs. 60,000
 - (b) Rs. 80,000
 - (c) Rs. 1,00,000
 - (d) Rs. 1,20,000

2016

15. A business borrowed Rs. 60,000 from its bank and used the cash to buy a new computer. How is accounting equation affected by these transactions?
- (a) Assets increased; liabilities decreased
 - (b) Assets unchanged; liabilities increased
 - (c) Assets increased; liabilities increased
 - (d) Assets unchanged; liabilities decreased

2019

16. On a particular date, the assets of a business are worth Rs.2,00,000 and its capital is Rs.70,000. Its liabilities on that date shall be:
- (a) Rs. 1,30,000
 - (b) Rs. 70,000
 - (c) Rs. 2,70,000
 - (d) Rs. 1,10,000

2019

17. If a company has liabilities of Rs. 19,000 and the owner's equity is Rs. 57,000, the assets of the company are:
- (a) Rs. 57,000
 - (b) Rs. 67,000
 - (c) Rs. 38,000
 - (d) Rs. 76,000

2019

H-TET

- 18.** If opening capital is Rs. 60,000, drawings Rs. 5,000, capital introduced during the period Rs. 10,000, closing capital Rs. 90,000. The value of profit earned during the period will be
 (a) Rs. 20,000 (b) Rs. 25,000
 (c) Rs. 30,000 (d) Rs. 40,000

2016

UP PGT

- 19.** Which of the following is an equation?
 (a) Assets = Capital
 (b) Assets = Liabilities – Capital
 (c) Assets = Liabilities + Capital
 (d) None of the above

2015

- 20.** Given

	January 1	December 31
Assets	30,000	
Liabilities	13,000	
Capital		16,500

Withdrawals by owner during the year are Rs. 4,000. What is the amount of capital on January 1?

- (a) Rs. 12,500 (b) Rs. 16,500
 (c) Rs. 17,000 (d) Rs. 43,000

2015

- 21.** Investment by owner results in–
 (a) Increase in capital and decrease in liability
 (b) Increase in capital and increase in liability
 (c) Increase in capital and decrease in assets
 (d) Increase in capital and increase in asset
- 22.** When capital in the beginning is Rs. 10,500, drawings during the year Rs. 6,500 and fresh capital introduced Rs. 3,500. What is the amount of capital at the end assuming no profit or loss.
 (a) Rs. 7,500 (b) Rs. 13,500
 (c) Rs. 20,500 (d) Rs. 5,00
- 23.** When capital at January 01 Rs. 19,400, capital at December 31 Rs. 21,500, drawings Rs. 4,300. What is the amount of profit or loss?
 (a) Rs. 2,200 (profit) (b) Rs. 2,200 (loss)
 (c) Rs. 6,400 (profit) (d) Rs. 6,400 (loss)

2015

- 24.** Assets of a business are Rs. 21,315 and liabilities Rs. 4,120. What is the amount of owner's equity?
 (a) Rs. 21,315 (b) Rs. 17,195
 (c) Rs. 25,435 (d) Rs. 4,120

2015

- 25.** The net assets of a business on January 1 and January 31 are Rs. 39,000 and Rs. 38,000

respectively. Additional investment by owner and withdrawal by owner during January amount to Rs. 2,000 and Rs. 6,000 respectively. What is the net income for January?
 (a) Rs. 1,000 (Loss) (b) Rs. 3,000
 (c) Rs. 5,000 (d) Rs. 4,000

2015

- 26.** Which one is the principle of 'double entry system'?
 (a) Purchase increases debit, Income decreases credit
 (b) Expense increases debit, Income decreases credit
 (c) Receiver is debit, Giver is credit
 (d) Receiver is credit, Giver is debit
- 27.** The system of recording transactions based on dual aspect concept is called:
 (a) Double account system
 (b) Double entry system
 (c) Single entry system
 (d) None of these

2019

2019

UP TGT

- 28.** Debit is equal to credit is :
 (a) Occasionally true in accounting
 (b) Occasionally wrong in accounting
 (c) Always true in accounting
 (d) True in special circumstances.
- 29.** The basic Principles of Accounting is "debit the receiver and credit the giver" applies to :
 (a) Profit and Loss Account
 (b) Real Account
 (c) Personal Account
 (d) Cash Account
- 30.** What is the Result of Payment of creditors-?
 (a) Increasing total assets
 (b) Decreasing total assets
 (c) Increasing total liability
 (d) Decreasing total liability and total assets
- 31.** The person who first published the principals of Double Entry System was-
 (a) Lucas Pacioli (b) Alfred Marshall
 (c) F.W. Taylor (d) Henry Fayol
- 32.** Double entry system was introduced in-
 (a) India (b) Italy
 (c) England (d) None of these
- 33.** The basic accounting equation is based on
 (a) Cost concept
 (b) Accounting period concept

2015

2015

2016

2016

2016

- (c) Accrual concept
- (d) Dual aspect concept

2021

- 34.** An asset was purchased for Rs. 5,00,000 with the down payment of Rs. 1,00,000 and bills accepted for Rs. 4,00,000. What would be the effect on the total asset and total liabilities in the balance Sheet ?
- (a) Assets increased by Rs. 4,00,000 and liabilities increased by Rs. 4,00,000
 - (b) Assets increased by Rs. 4,00,000 and liabilities decreased by Rs. 4,00,000
 - (c) Assets decreased by Rs. 4,00,000 and liabilities increased by Rs. 4,00,000
 - (d) Assets increased by Rs. 5,00,000 and liabilities increased by Rs. 4,00,000

2021

- 35.** Accounting equation, “Assets = Liabilities + Owners Equity”, is represented through
- (a) Income statement
 - (b) Cash flow statement
 - (c) Balance Sheet
 - (d) Funds flow statement

2021

Army School PGT – 2012

- 36.** Owners’ equity stands for
- (a) Fixed assets – fixed liabilities
 - (b) Fixed assets – current liabilities
 - (c) Current assets – fixed liabilities
 - (d) Total assets – total liabilities

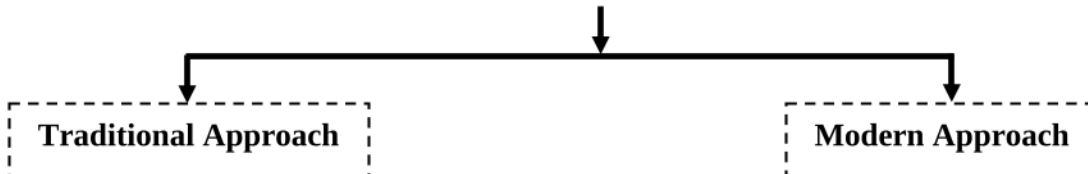
- 37.** Which of the following transaction result in increase of assets and increase in owner’s equity?
- (a) Bonus shares issued
 - (b) Shares issued for cash
 - (c) A dividend is declared
 - (d) All of the above
- 38.** Identify the transaction that will result in decrease in owner’s equity and increase in liabilities.
- (a) Issue of bonus shares
 - (b) Shares issued in payment of bills payable
 - (c) Shares issued for purchase of land and building
 - (d) None of the above
- 39.** Investment by the owner would result in _____ in capital and increase in _____.
- (a) Increase; liability
 - (b) Decrease; liability
 - (c) Increase; asset
 - (d) Decrease; asset

Answer Key

1 (b)	2 (c)	3 (a)	4 (c)	5 (d)
6 (d)	7 (c)	8 (c)	9 (a) or (b)	10 (a)
11 (b)	12 (a)	13 (c)	14 (a)	15 (c)
16 (a)	17 (d)	18 (b)	19 (c)	20 (c)
21 (d)	22 (a)	23 (c)	24 (b)	25 (b)
26 (c)	27 (b)	28 (c)	29 (c)	30 (d)
31 (a)	32 (b)	33 (d)	34 (a)	35 (c)
36 (d)	37 (b)	38 (d)	39 (c)	

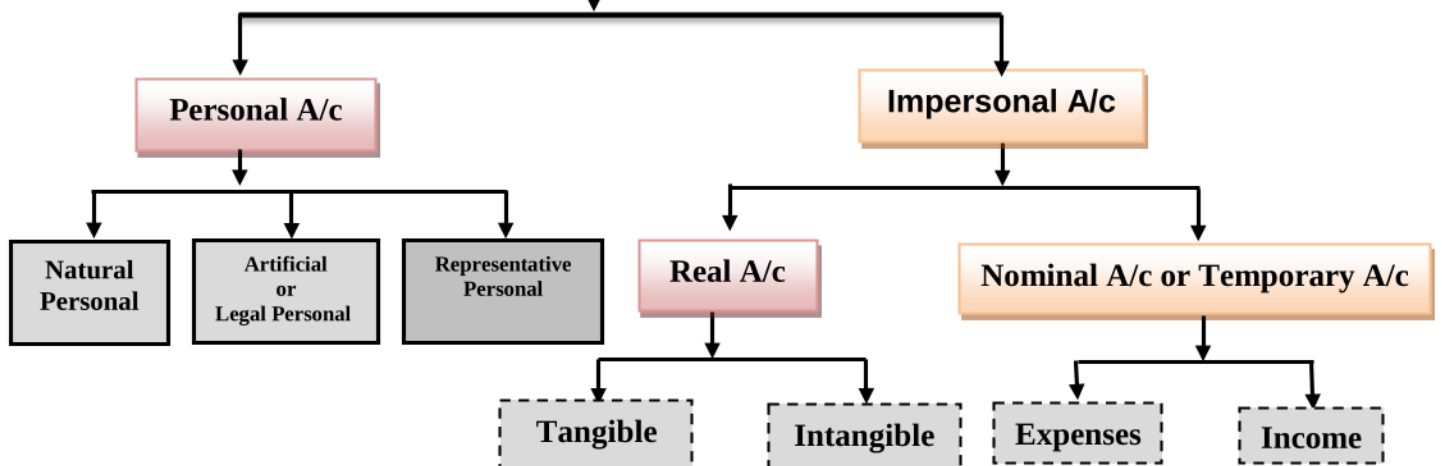
Classification of Accounts

Classification of Accounts



Traditional / British Classification of Accounts:-

Traditional Classification of Accounts



1. PERSONAL ACCOUNTS: – Accounts which relate to persons, i.e., individuals, firms, companies, Debtors, Creditors, Capital, Drawings, Loan, Bank, Bills of Exchange etc. these are personal accounts. Personal Account may be classified into three Categories.

- (i) **Natural Personal Accounts:** - These are those persons who are creation of God. These are humans. For example: - Ram, Shyam etc.
- (ii) **Artificial or Legal Personal Accounts:** - These are those persons, which are recognized as a person in the eye of Law or in business dealing. They enjoy the same rights of Natural Persons. For example: - The accounts of a Limited Companies, Club, Societies, Government, Bank etc.
- (iii) **Representative Personal / Group Accounts:** -These are accounts, which represent a certain person or a group of persons. Outstanding Rent A/c, it represents the landlord to whom the rent is to be paid. Debtors A/c, Creditors A/c – these are group Accounts.

Example of Representative Personal Account:-

- (i) Unexpired / Prepaid Expenses A/c
- (ii) Outstanding Expenses A/c
- (iii) Income Received in Advance A/c
- (iv) Accrued Income A/c

Personal Accounts are recorded in Liability side of Balance Sheet. For Example: - Bills Payable, Creditors, Capital, Loan, Outstanding Expenses etc.

2 REAL ACCOUNTS: - Accounts which relate to assets (tangible or intangible) of the business are called Real Accounts. For example, Land; Building; Plant& Machinery; Goodwill; Purchase; Sales; Cash at Bank ; Cash in Hand etc.

Almost Assets are Real Account except, Debtors Account and Bills Receivable Account, Unexpired Expenses Account and Accrued Income Account.

Personal and Real Account are written in the Balance Sheet. The amount of profit or loss is ascertained by totaling the nominal accounts. The net amount of profit and loss is transferred to Capital account. It is done because the profit and loss of the business belongs to the proprietor of the business

3 NOMINAL ACCOUNTS: - Accounts which relate to expenses, losses, gains, revenue are called Nominal Accounts. The net result of all nominal account is reflected as profit or loss which is transferred to capital account. Nominal accounts are temporary accounts. For example, Rent Paid A/c; Interest Received A/c. Salary Paid A/c; Adjusted purchase A/c; etc.

In case of Nominal Account “Name of party” is irrelevant. It is irrelevant to which party money is received and to which party money is paid. *Income and Expenses is only relevant*

If any Suffix or Prefix is added before or after a Nominal Account is becomes Representative Personal Account

Nominal Account	Representative Personal Account
Salary Account	“Outstanding” Salary Account, “Prepaid” Salary Account
Commission Account	Commission “Received in Advance” Account
Interest Account	“Accrued” Interest Account
Rent Account	Rent “Received in Advance” Account

Example of Accounts

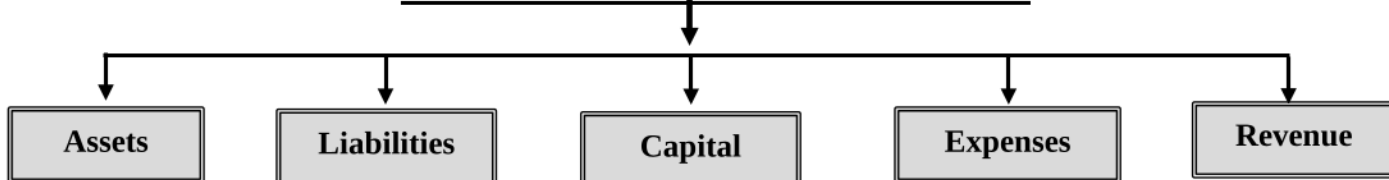
S. No.		Nature of Accounts (Personal ; Real ; Nominal ; Representative Personal)
1.	Bank Overdraft / Bank Loan	Personal Account
2.	Outstanding Salary / Rent etc.	Representative Personal Account
3.	Unexpired Expenses	Representative Personal Account
4.	Proprietor Account / Capital Account	Representative Personal Account
5.	Bank Deposit	Personal Account
6.	Debtors / Creditors	Representative Personal Account
7.	Personal Income Tax	Personal Account
8.	Sales Tax Payable	Personal Account
9.	Capital / Drawings	Representative Personal Account
10.	Rent Received in Advance / Prepaid Rent	Representative Personal Account
11.	Bills Receivable / Bills Payable	Personal Account
12.	Partners' Capital / Current Account	Personal Account
13.	SBI Bank Account	Artificial Personal Account
14.	Interest Receivable A/c	Representative Personal Account
15.	Share Allotment A/c	Personal Account
16.	Provision for Doubtful Debts A/c	Personal Account
17.	Provision for Discount on Debtors A/c	Personal Account
18.	Reserve for Discount on Creditors	Personal Account
19.	Premium on Redemption of Debenture A/c	Personal Account
20.	Purchases	Real Account (As per ICAI) / Nominal Account
21.	Sales	Real Account (As per ICAI) / Nominal Account
22.	Cash in Hand / Cash Balance	Real Account
23.	Closing Stock	Real Account
24.	Investment	Real Account
25.	Cash at Bank / Bank Balance	Real Account
26.	Fixed Deposit	Real Account
27.	Patents	Real Account
28.	Goodwill	Real Account
29.	Provision for Depreciation A/c	Real Account
30.	General Reserve Account	Nominal Account
31.	Dividend Equalization Fund	Nominal Account
32.	Adjusted Purchase Account	Nominal Account
33.	Rent	Nominal Account
34.	Bad Debts	Nominal Account
35.	Bad Debt Recovered	Nominal Account
36.	Depreciation	Nominal Account
37.	Excise Duty	Nominal Account
38.	Donations & Charity	Nominal Account
39.	Cash Embezzlement A/c	Nominal Account
40.	Sales Tax	Nominal Account
41.	Memorandum Joint Venture A/c	Nominal Account

Golden / Traditional Rules of Debit and Credit:-

- 1 For Personal A/c: – Debit the receiver and Credit the giver.
- 2 For Real A/c: –Debit what comes in and Credit what goes out.
- 3 For Nominal A/c: –Debit all expenses and losses and Credit all gains and Profits

Modern / American Classification of Accounts:-

Modern Classification of Accounts



1. **Assets Accounts:** - These accounts are related with assets and properties of the business such as Land and Buildings

Profit or losses arise on either on sale or destruction of Fixed Assets / Investments are immediately recorded in the books of Accounts through Profit & Loss A/c. If there is profit on sale or destruction of Fixed Assets / Investments then Profit and Loss A/c is credited by amount of profit & if there is loss then Profit and Loss A/c is Debited by amount of Loss

2. **Liabilities Accounts:** - These are related with “business owes to outsider” such as Lenders, Creditors for goods, Loan, Debenture etc.

3. **Capital Account:** It is the investment made by the Proprietor in the business.

4. **Expenses (It includes losses also):** Amount incurred in Producing and selling goods and services

5. **Revenue (It includes Income, Gains and Profits also):** It is arise as a result of operations (business).

American’s / Modern’s Rules of Debit and Credit

1. Increases in Assets are debits; decreases are credits.
2. Increases in liabilities are credits; decreases are debits.
3. Increases in Owner’s capital are credits; decreases are debits.
4. Increases in Expenses are debits; decreases are credits
5. Increases in revenues or income are credits; decreases are debits

Easy Rules of making Journal

Assets and Expenses		Liabilities , Capital and Revenue	
+	-	+	-
Debit	Credit	Credit	Debit

Debit	Credit
Assets when Increases (+) Expenses; Losses(+) Liabilities when Decreases (-) Income; Gain; Profit(-) Capital (-) [it is known as Drawings] Stock (+) [in case of Purchases and Sales Returns]	Assets when Decreases (-) Expenses; Losses(-) Liabilities when Increases (+) Income; Gain; Profit Capital (+) Stock (-) [in case of Sales and Purchases Returns]

<p>Purchase</p> <ul style="list-style-type: none"> When goods are purchased

<p>Purchase</p> <ul style="list-style-type: none"> Goods taken for personal use by proprietor Goods given as Charity / Donation Goods distributed as free samples Goods Destroyed by fire Goods used to make or construct an assets Goods transfer at end of year to Closing Stock

PGT Commerce Questions

DSSSB

- 1.** The Receipts and Payments Account of a non-profit organization is a
 (a) Nominal Account
 (b) Real Account
 (c) Income Statement Account
 (d) Financial Account
- 2015 Tire II**

KVS

- 2.** Pre – paid Rent is a:
 (a) Personal Account (b) Expense Account
 (c) Real Account (d) Nominal Account
- 2023**

H-TET

- 3.** Commission received is
 (a) Real account (b) Nominal account
 (c) Personal account (d) Liability
- 2016**
- 4.** Trade mark is a
 (a) Tangible Real Account
 (b) Intangible Real Account
 (c) Representative Personal Account
 (d) Nominal Account
- 2021**

UP PGT

- 5.** Goodwill account is a–
 (a) Personal account (b) Real account
 (c) Nominal account (d) None of the above
- 2015**

UP TGT

- 6.** Account relating to Income and Expenditure and Profit and Loss is called :
 (a) Real Account (b) Nominal Account
 (c) Personal Account (d) None of the above
- 2015**
- 7.** Capital Account is account
 (a) Personal (b) Real
 (c) Nominal (d) None of the above
- 2015**

- 8.** Outstanding Expenses Account is:
 (a) Income and Expenditure Account
 (b) Nominal Account
 (c) Personal Account
 (d) Real Account
- 2016**
- 9.** Drawings Account is
 (a) Nominal Account (b) Personal Account
 (c) Real Account (d) Fictitious Account
- 2021**
- 10.** According to the Double Entry System, salary paid to a clerk Ramesh is a
 (a) Real Transaction
 (b) Personal Transaction
 (c) Nominal Transaction
 (d) Both Real and Personal Transaction
- 2021**

Army School PGT – 2012

- 11.** Insurance unexpired account is a _____ account
 (a) Personal (b) Nominal
 (c) Real (d) Fictitious

Bihar STET– 2023 Shift-II

- 12.** Income and Expenditure Account is:
 (a) Personal Account (b) Real Account
 (c) Nominal Account (d) None of these

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- 13.** Prepaid Rent A/c is a
 (a) Nominal A/c
 (b) Real A/c
 (c) Personal A/c
 (d) More than one of the above
 (e) None of the above

Answer Key

1 (b)	2 (a)	3 (b)	4 (b)	5 (b)
6 (b)	7 (a)	8 (c)	9 (b)	10 (c)
11 (a)	12 (c)	13 (c)		

Accounting Process

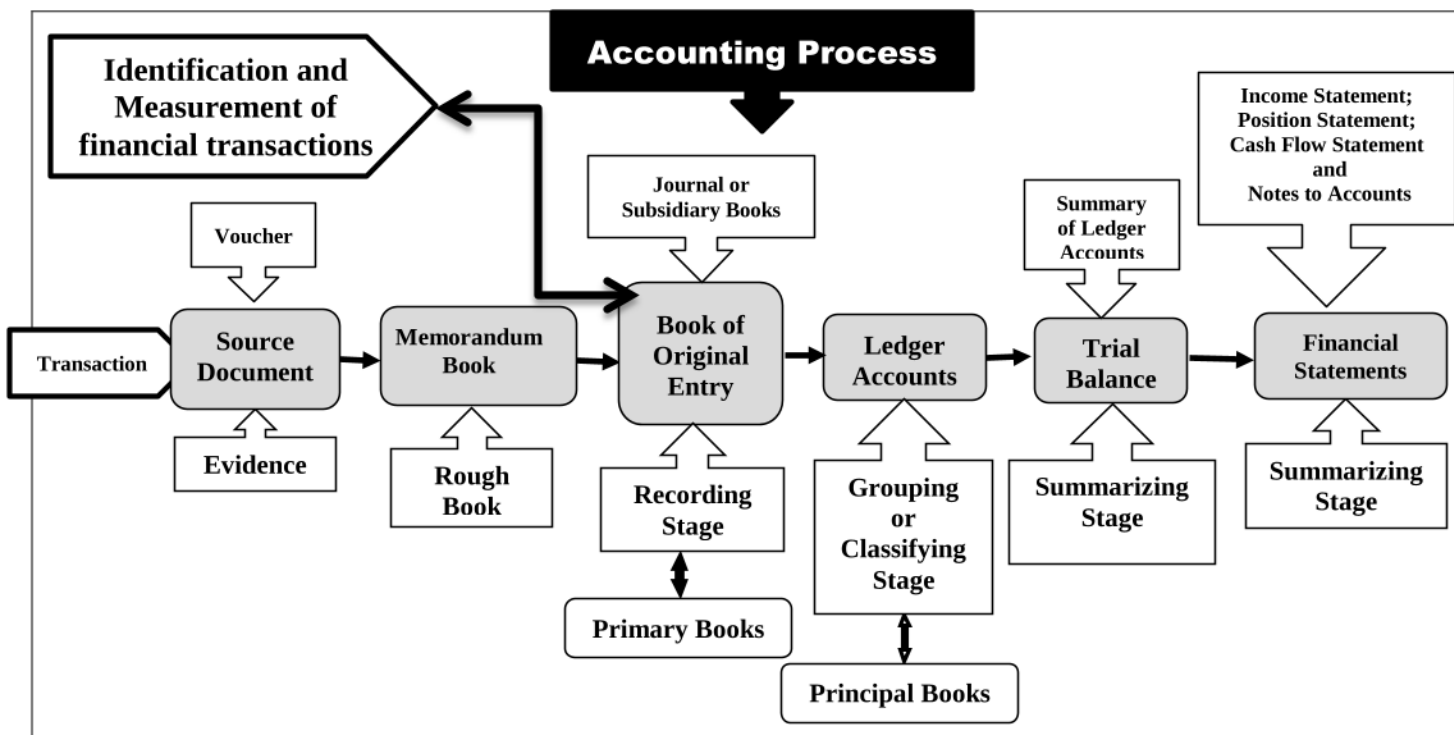
Topics Covered :	PGT Commerce Questions	Practice Questions
• Accounting Process - Introduction	4	16
• Vouchers	8	4
• Journal	28	20
• Subsidiary Books	5	24
• Ledger	18	22
• Trail Balance	11	26
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Accounting Process - Introduction

“Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money; transactions and events which are, in part at least, of a financial character, and interpreting the results thereof”. This definition is given by “American Institute of Certified Public Accountants in 1961

Sequence of the activities in the process of accounting

- Recording the business transaction in the books of entry
- Journalizing the transaction in the ledger accounts
- Preparation of the Trial Balance
- Preparation of Annual Financial statements
- Deriving meaningful inferences for business decisions



Book of Original Entry / Books of Prime Entry - Primary Book

These are the books which are used in recording the transactions for first time. These Books are maintained for memorandum purpose. For Example: - Journal or Subsidiary Books. (Details study latter)

Ledger Accounts: - Principal Book or Main Book

These form part of Double Entry System. (Details study latter)

Trial Balance: - It shows arithmetical accuracy of books of accounts.

It is a statement containing summary of all Ledger Balances. In this statement total of various ledger accounts are recorded, and act as a preliminary check on accounts before preparing Final Accounts. Trial Balance cannot be prepared from Primary Books (From Journal or subsidiary books). It is always prepared from Principal Books (Ledgers). Trial Balance is itself is not a ledger, it a statement only.

Financial Statements:-

Financial statements are summarized statements of accounting data prepared at the end of an accounting process. It is a median of communicating accounting information to the internal and external users. As per section 2(40) of the companies Act, 2013 financial statements includes:-

- (i) Balance Sheet
- (ii) Statement of Profit and Loss
- (iii) Notes to Accounts
- (iv) Cash Flow Statement

PGT Commerce Questions

DSSSB

- 1.** Which of the following comes first in accounting cycle?
- (a) Recording in subsidiary books
 - (b) Preparing trading account
 - (c) Posting in ledger accounts
 - (d) Entering in trial balance
- 2021 Male**

NVS

- 2.** Which of the following comes first in accounting cycle ?
- (a) Recording in subsidiary books
 - (b) Preparing trading account

- (c) Posting in ledger accounts
- (d) Entering in trial balance

2014

UP TGT

- 3.** In financial accounting, ledger posting is a process of:
- (a) Summarizing
 - (b) Classifying
 - (c) Recording
 - (d) Interpreting

2019

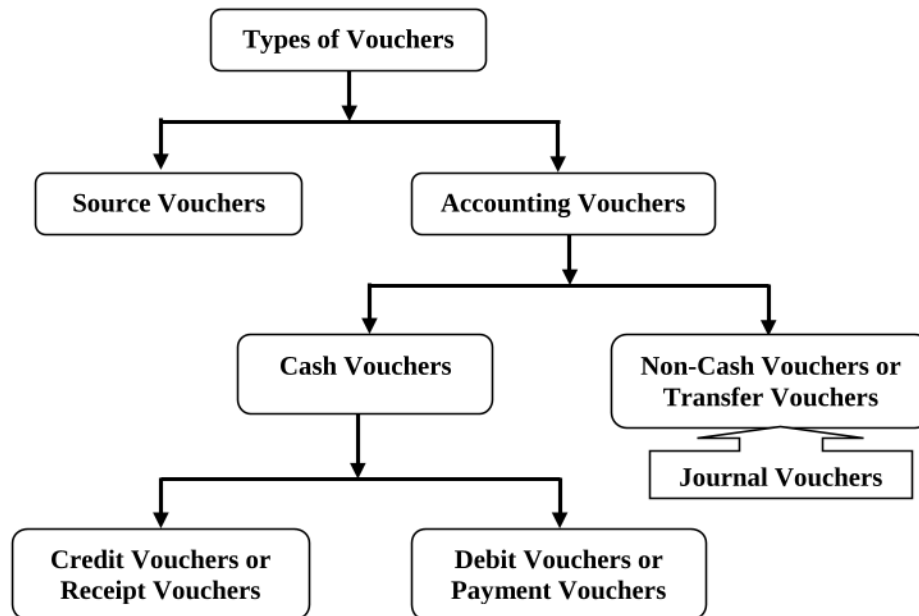
- 4.** Accounting process does not include:
- (a) Recording
 - (b) Classifying
 - (c) Simplifying
 - (d) Summarizing

2019

Answer Key

1 (a)	2 (a)	3 (b)	4 (c)	
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Vouchers



Source Vouchers / Source Documents / Supporting Vouchers :- (7 Categories)

Source Documents are the evidence of the transactions, on the basis of which transactions are recorded in books of Accounts so it is also called supporting Documents. For Example: - Cash Memo; Invoice / Bill; Receipt; Cheque; Pay in Slip; Debit Note; Credit Note.

1. Cash Memo: - It is prepared by the seller when goods are sold for Cash. It contains details of goods sold, quantity, rate of each item and the total amount received with other terms and conditions. It is evidence for the purchaser, for goods purchased against cash, and for the enterprise, it is an evidence of sales for cash.

2. Invoice or Bill: - It is prepared by the seller when goods are sold on credit. It has details of party to whom goods are sold quantity, rate of each item and the total same amount with other terms and conditions. The original copy of the sales invoice is sent to the purchaser and a duplicate copy is retained as an evidence of sales for recording it in the books of the accounts and for future reference.

3. Receipt: - When cash or cheque is received from a customer, a receipt for the amount received is issued. The receipt is prepared in duplicate. The original copy is handed over to the party tendering the payment and the duplicate is kept for record. This source documents contains details regarding the date, amount, name of the party and nature of the payment.

4. Cheque: - Cheque is a document in writing, drawn upon the bank with which the account is held and is payable on demand.

5. Pay in Slip: - It is a source document used for depositing cash or cheques into bank. It is a type of form available from a bank at free of cost.

6. Debit Note: - It is a source document evidencing that a debit has been made to the account of the party named in the debit note. It details the reason for the debit. It can prepare by seller as well as buyer. The Seller will make a debit note when he finds that there is short debit or there is need to further debit. It is possible when goods are sold by the seller to the buyer and finds that his goods have been undervalued. Similarly a purchaser will make a debit note when he finds that there is excess debit or there is need to reduce his debit or when he returns goods purchased on credit. It is possible when he returns goods to the seller or goods purchase is overvalued.

7. Credit Note: - It is a source document evidencing that a credit has been granted. If a customer returns the good previously invoiced then seller issue Credit Note.

Seller	Buyer
Goods are sold on credit PartyDr. To Sales	Goods are purchased on credit PurchaseDr. To Party
Goods are returned by the buyer Sales Return A/c.....Dr. To Party	Goods are returned to the seller PartyDr. To Purchase Return

Cases when Debit Note or Credit Note is prepare

Situation	Seller	Buyer
Goods are return by the purchase to seller	Credit Note	Debit Note
Goods sold are overvalued now rectified	Credit Note	Debit Note
Goods sold are undervalued now rectified	Debit Note	Credit Note
Further discount is allowed by the seller	Credit Note	Debit Note

Accounting Vouchers:-

(i) Receipt Voucher

Receipt voucher is used to record cash or bank receipt. Receipt vouchers are of two types:-

- (a) Cash receipt voucher – it denotes receipt of cash
- (b) Bank receipt voucher – it indicates receipt of cheque or demand draft

For Example:-

- (i) Sale of Goods for cash; Sale of Fixed Assets for cash; Sale of Investments for cash
- (ii) Receipts from debtors
- (iii) Withdrawal from bank, etc.

(ii) Payment Voucher

Payment voucher is used to record a payment of cash or cheque. Payment vouchers are of two types:-

- (a) Cash Payment voucher – it denotes payment of cash
- (b) Bank Payment voucher – it indicates payment by cheque or demand draft.

For Example:-

- (i) Expenses paid
- (ii) Purchases of Goods for cash ; Purchases of Fixed Assets for cash
- (iii) Payment to Creditors
- (iv) Deposits Cash into Bank
- (v) Drawings of Cash for personal use etc.

(iii) Non Cash or Transfer Voucher / Journal Voucher

These vouchers are used for non-cash transactions as documentary evidence. e.g., Goods sent on credit.

For Example:-

- (i) Credit Sales
- (ii) Credit Purchases
- (iii) Goods Returned (both inwards and outwards)
- (iv) Rectifying the mistakes,
- (v) All type of Adjustments entry etc.

Compound Voucher:

Voucher prepared for the transaction with multiple debits and multiple credits is known as compound Voucher

PGT Commerce Questions

DSSSB

- 1.** A customer returning the goods purchased on credit, may inform the seller by sending
 (a) Debit Note (b) Credit Note
 (c) Court Notice (d) Return Invoice
2015 Tire II

KVS

- 2.** Voucher prepared for the transaction with multiple debits and multiple credits is known as :
 (a) Complex Voucher
 (b) Debit Voucher
 (c) Credit Voucher
 (d) Compound Voucher
2018
- 3.** Reshma has return goods worth Rs. 10,000 to Rajesh as she found them defective. Which document is to be prepared by Rajesh for the same
 (a) Debit Note
 (b) Credit Note
 (c) Invoice
 (d) Cash Memo of Rs. 10,000
2018

NVS

- 4.** A document which provides evidence of the transaction is called:
 (a) Source document (b) Accounting voucher
 (c) Debit voucher (d) Credit voucher
2016

H-TET

- 5.** On receiving the returned goods from the buyer, the seller sends
 (a) Debit note (b) Promissory note
 (c) Bills of exchange (d) Credit note
2016
- 6.** A supporting voucher is
 (a) a documentary evidence of business transactions having taken place
 (b) secondary voucher
 (c) prepared by an accountant
 (d) a proof
2021

UP TGT

- 7.** Which of the following is a basic evidence of a transaction ?
 (a) Journal entry (b) Cash book
 (c) Voucher (d) Pass book
2021

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- 8.** The note which is sent to a customer when he returns the goods is known as
 (a) Demand Note
 (b) Debit Note
 (c) Credit Note
 (d) More than one of the above
 (e) None of the above

Answer Key

1 (a)	2 (d)	3 (b)	4 (a)	5 (d)
6 (a)	7 (c)	8 (c)		